



What Will We Cover?



When we are finished, you will understand:

- **Credit Reports and Credit Scores** - What they are and how they are developed.
- **New Developments** – How credit reports are changing to include data from non-traditional sources.
- **Understanding the Reports** - How to read them and why they are important.
- **Acting On the Information** – What to do to maintain, correct, or improve the information that is on the report.
- **Thinking Like a Lender** - How lenders view you as a potential borrower

Who Are the Credit Bureaus?



There are three major credit bureaus:



What is a Credit Report?



It's a detailed record of your history of borrowing money and paying it back.

- Report card about your credit standing
- Used by lenders, insurance companies, landlords, and employers to determine whether you have good financial habits
- Credit reports are provided by credit bureaus based upon information provided to them by creditors on a voluntary basis



Free Credit Reports



You are entitled to one free copy of your credit report from each of the three credit bureaus annually.

- www.annualcreditreport.com
- 1-877-322-8228
- Annual Credit Report Request Service
PO Box 105281, Atlanta, GA 30348-5281
- Credit Score does not come automatically with free report



New Developments



- **FICO 9**
- **The National Consumer Assistance Plan**

FICO 9



- **Non-traditional credit will be taken into consideration**
 - Rental history and utilities
- **All Paid collections will be ignored (whether paid in full or settled)**
- **Medical collections will no longer be factored into the FICO score whether paid or unpaid**
- **Unpaid Non-medical collections will have a greater impact on the score**

The National Consumer Assistance Plan



- Consumers who receive their free annual report – which is available to every consumer at www.annualcreditreport.com – and discover an error that they successfully dispute will now be able to obtain a second report at no charge
- For medical bills, there will now be a 180-day waiting period between the time an account is created and the time it can be recorded on a credit report as due for collection. That will give consumers and their medical providers time to resolve insurance payments and other billing issues
- Consumer debts that did not arise from a contract or other agreement by the consumer to pay, such as traffic tickets or government fines, will no longer be eligible for being recorded on credit reports

The National Consumer Assistance Plan (continued)



- If consumers dispute an item on their credit report and are dissatisfied with the outcome of the investigation, they will be given information about further options
- The CRAs are focusing on an enhanced dispute resolution process for consumers that are proven victims of fraud or identity theft, as well as those involved in mixed files – a situation where two consumer files are mistakenly mixed together

****Consumer Data Industry Association**

Credit Report Review Activity



Credit Scores

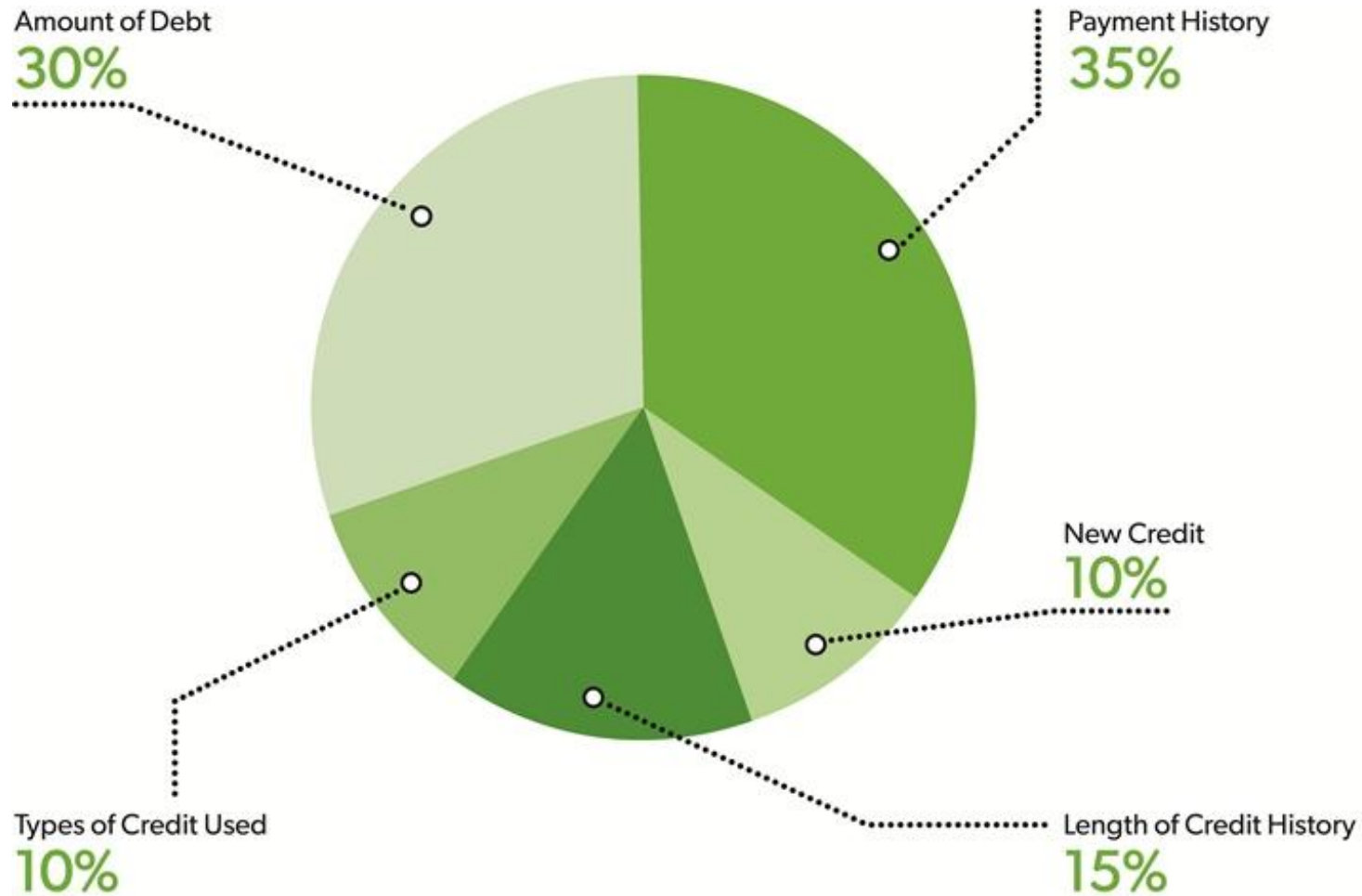


What are they?

- A number developed from a calculation using the information from your credit report.
- Most widely used is the Fico Score
 - Scores range from 300-850
- Other scoring models that use the 300 – 850 scoring range
 - Beacon - Equifax
 - Empirica – TransUnion
 - Plus - Experian
- New Score being introduced called Vantage Score
 - Scores range from 300-850
- The higher the score, the better risk you are determined to be and the better rate you will be eligible for.

What Makes Up My Score?

The 5 areas a FICO score considers



Payment History (35%)



Key Factors

- Recency
- Severity
- Frequency

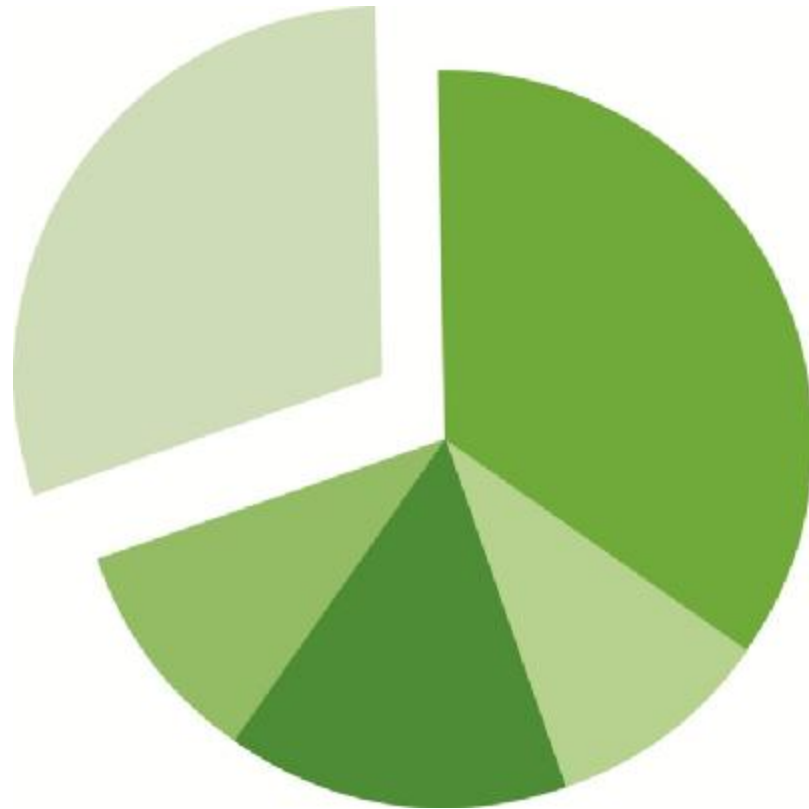


Amount of Debt (30%)



Key Factors

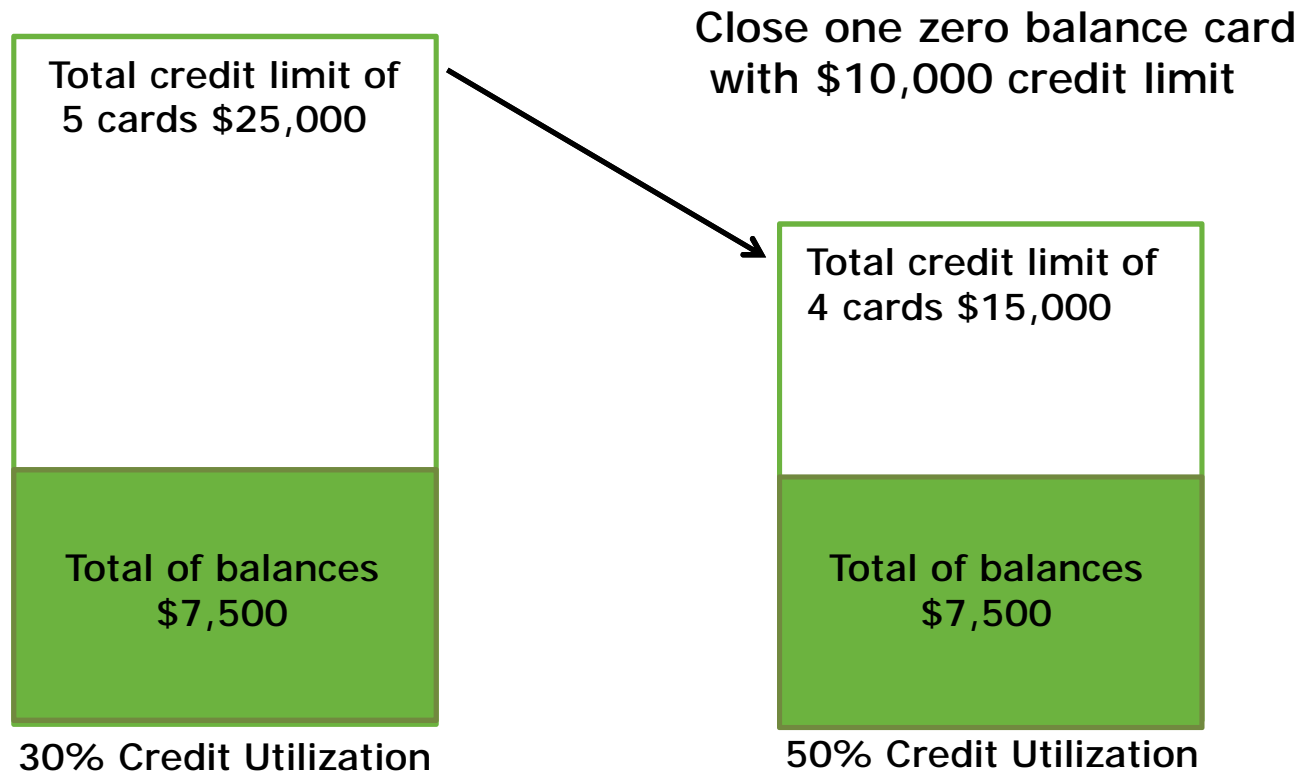
- Credit card debt
- Installment debt



Amount of Debt (30%)



Credit Utilization Ratio



Length of Credit History (15%)



Key Factors

- How long have accounts been established?
- New accounts

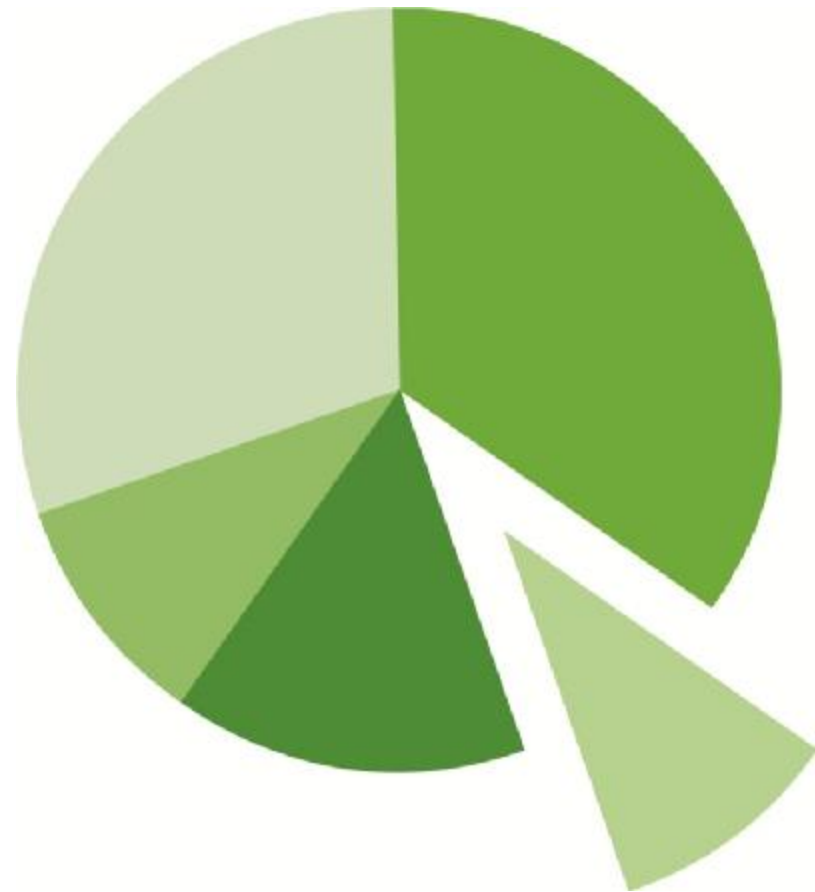


New Credit (10%)



Key Factors

- Inquiries
- New accounts



Types of Credit Used (10%)



Key Factors

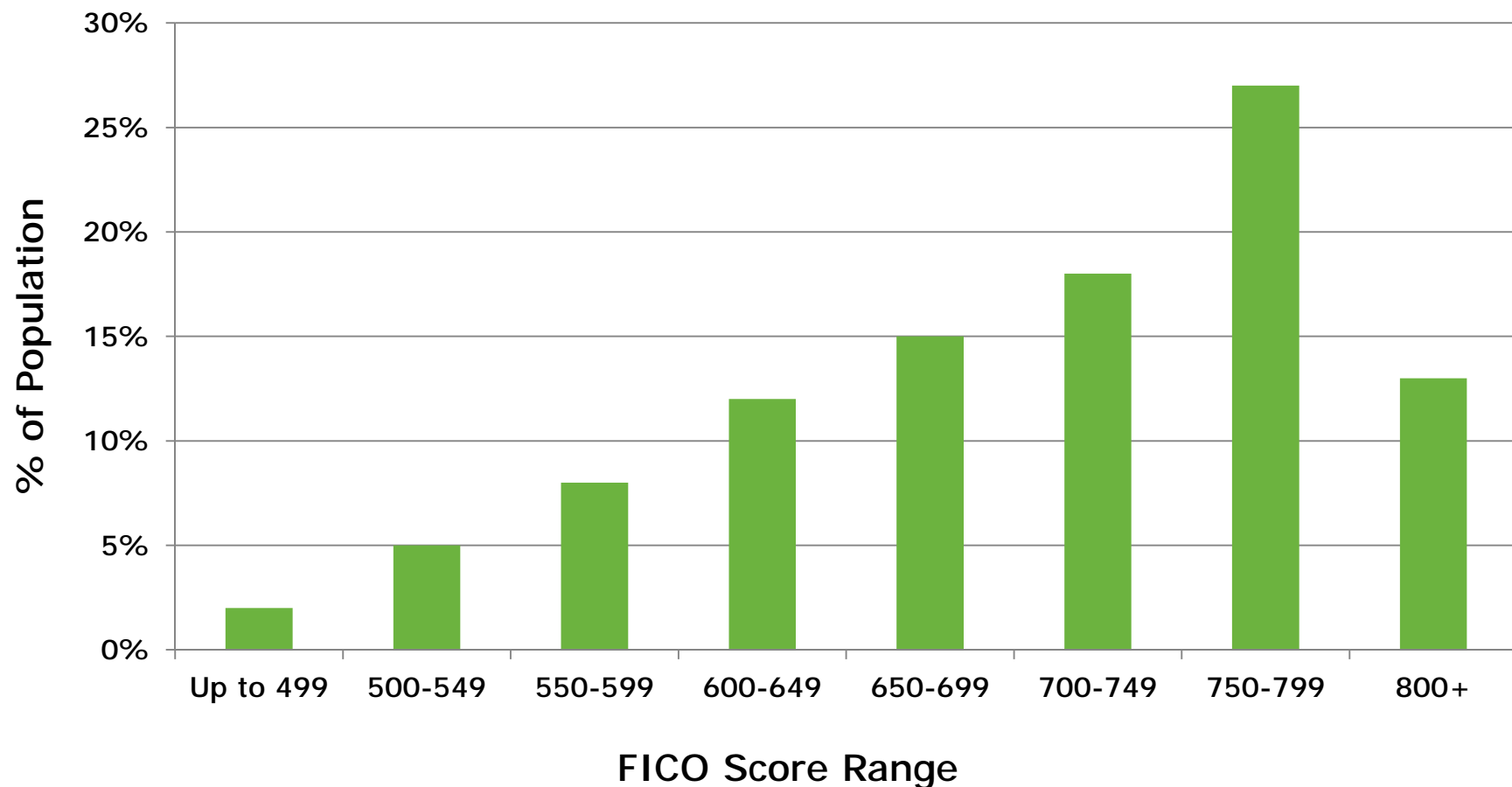
- Revolving credit
- Installment credit
- Mortgage credit



Nationwide Range of Credit Scores



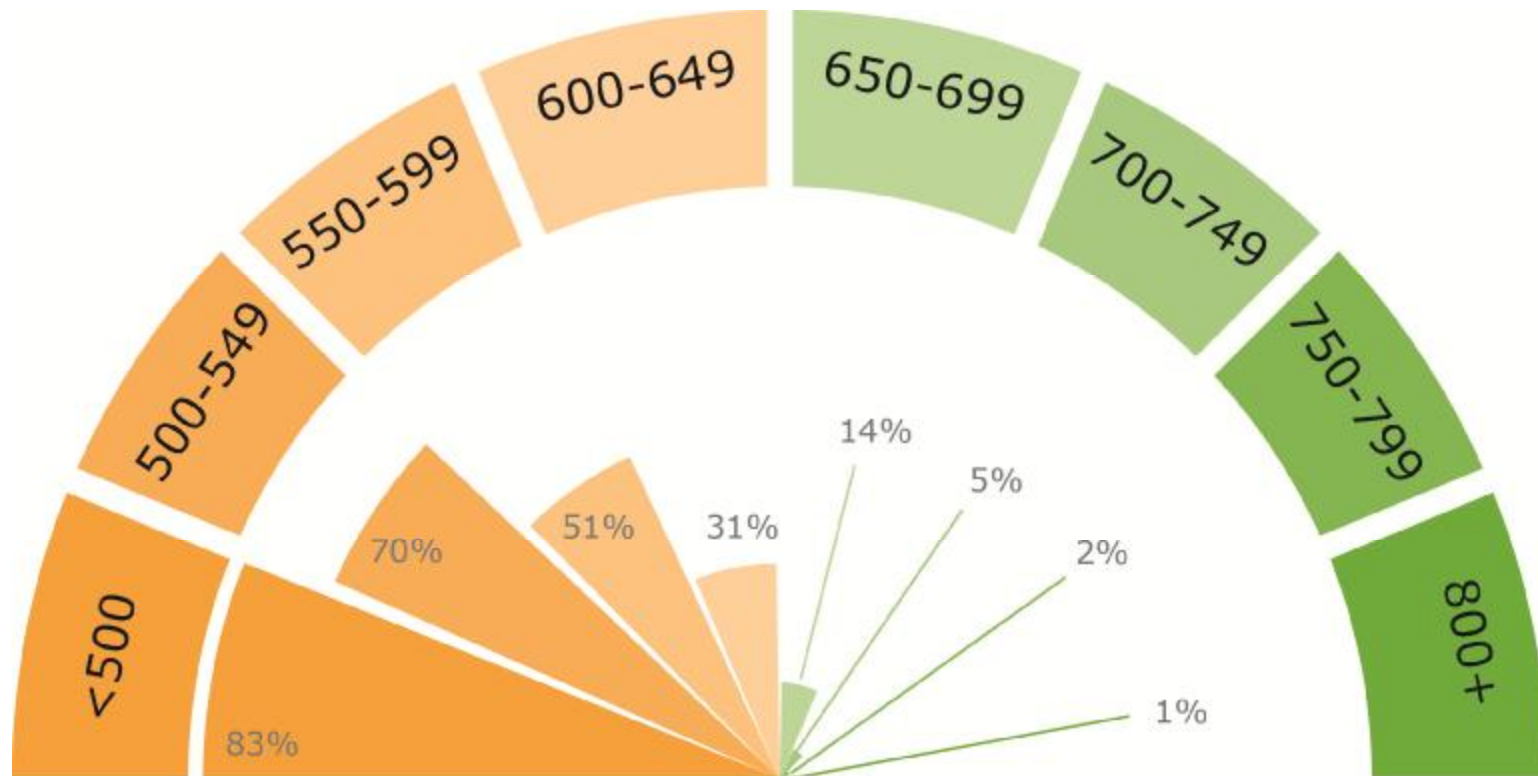
National Distribution of FICO Scores



The FICO Score Indicates Risk



Chance of 90 days past due or worse over 2 years.



Source: FICO

Your Score Really Matters



Compare these two loans

A \$10,000 used car loan for 36 months can result in an extra \$2,304 in payments over 3 years.



Source: FICO

Impact on Score Activity



Improving Your Credit Score



These steps will improve your credit score:

- Pay bills on time
- Reduce debt
- Keep balances low relative to your credit limits
- Apply for and open new lines only when you need them
- Check your credit report for accuracy and clear errors as soon as possible

Establishing Credit



- Secured Credit Card
- Bank Card
- Retail Card
- Secured Loan
 - CD Loan
- Co-signer

Check with your financial institution. Many have credit building products.

How do I Dispute My Report?



Fair Credit Reporting Act

- The Dispute Process is free
 - Send certified letter to CRA and creditor in question
 - CRAs must investigate within 30 days
- Must delete what they can't verify
- Must correct inaccuracies
- Must report back to you
- Must share the updated information with the other credit reporting agencies
- Once report is updated, you are entitled to new report

Accurate Negative Information



You can't have information removed if it is accurate.

- Negative account information will be reported for 7 years from the date of first delinquency
- Chapter 7 bankruptcy-10 years
- Chapter 13 bankruptcy-7 years
- Defaulted student loans, judgments on loans, and lawsuits can be listed longer per individual state statute
- Foreclosures – 7 years from the filing date
- Hard Inquiries – 2 years

Opting Out



- **Credit Card Solicitations**
 - Call 1-888-5-OPT-OUT (567-8688)
 - Website: www.optoutprescreen.com
 - Stops credit bureaus from selling your name
 - You can choose to be off lists for 5 years or permanently
- **Do Not Call Registry**
 - Stops telemarketing solicitations
 - Register at www.donotcall.gov or 1-888-382-1222

Credit Score Myths



Which of these are true:

- Credit counseling hurts your credit score as much as Bankruptcy
- Closing accounts always helps your score
- Checking your FICO score can hurt your credit
- Applying for a retail card hurts your score
- A divorce decree automatically severs joint accounts
- I don't need to check my credit report if I pay my bills on time

Thinking Like a Lender



The 5 C's of Credit



- ☒ Credit history
- ☒ Capacity
- ☒ Capital
- ☒ Collateral
- ☒ Conditions

APPROVED

5 C's of Credit: Credit



- The credit report is a detailed list of your credit history, consisting of information provided by lenders that have extended credit to you
- The credit score serves as an indicator for the lender about risk based on your credit history
- Typically, the higher the score, the lower the risk
- Each lender has its own criteria, depending on the level of risk it finds acceptable to help them make their lending decision

5 C's of Credit: Capacity



- Lenders need to determine whether you can comfortably manage your payments
- Your past income and employment history are good indicators of your ability to repay outstanding debt
- Income amount, stability, and type of income may all be considered
- The ratio of your current and any new debt as compared to your before-tax income, known as debt-to-income ratio (DTI), may be evaluated.

5 C's of Credit: Capital



- Your household income is expected to be the primary source of repayment
- Capital represents the savings, investments, and other assets that can help repay the loan
- This information can be helpful if you lose your job or experience other setbacks.

5 C's of Credit: Collateral



- With a secured product, such as an auto or home equity loan, you pledge something you own as collateral
- The value of your collateral will be evaluated, and any existing debt secured by that collateral will be subtracted from the value
- Any remaining equity will play a factor in the lending decision
- The less collateral a borrower has, the riskier the loan is for the financial institution

5 C's of Lending: Conditions



- Lenders may want to know how you plan on using the money and will consider the loan's purpose, such as whether the loan will be used to purchase a vehicle or other property.
- Other factors such as environmental and economic conditions may also be considered
- A volatile or unstable economic situation can negatively impact the decision and positive expectations can increase the likelihood of obtaining the loan

Steps to Become Creditworthy



- Create a spending plan..... and stick to it
- Build savings
- Pay bills on time each month
- Pay down debt
- Check credit report
- Understand credit score and how it relates to the lending process

My Action Plan!



What are the things I can start doing today to become more creditworthy?

- 1.
- 2.
- 3.

More Resources



These organizations can help:

Apprisen

1-800-355-2227

www.apprisen.com

Federal Trade Commission

www.ftc.gov

Consumer website for credit scores

www.myfico.com

www.scoreinfo.org

Free Credit Reports

www.annualcreditreport.com

Equifax

1-800-685-1111

www.equifax.com

TransUnion

1-800-888-4213

www.transunion.com

Experian

1-888-397-3742

www.experian.com

If you have questions or want more information, call Apprisen at:

1-800-355-2227

Or email us: sarah.gant@apprisen.com

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